SYNOPSIS

With the decentralisation of powers to Local self-government (LSG) Institutions, Local administration department has an important role to play in the formulation of policy and implementation of developmental works at the grass roots level. Director of panchayat and Director of Municipal Administration form the two field departments. The State has been divided into 14 Districts spreading over 21 Revenue divisions, 63 Taluks and 1453 Revenue Villages. There are 14 District Panchayats, 152 Block Panchayats, 978 Grama Panchayats, 60 Municipalities, 5 Corporations. Consequent to the 74th Amendment to the Constitution of India, the Local self-government Institutions (LSGIs) are to function as the third tier of Government. In Kerala, LSGs have been meaningfully empowered through massive transfer of resources as well as administrative powers. Coupled with a grassroots level approach of Participatory Planning whereby the developmental programmes are identified and implemented through Grama Sabhas, the LSGs have emerged as effective agencies for the implementation of developmental programmes.

The LSG institutions were following single entry cash based accounting system. The financial statements prepared by the LSG institutions under the cash basis did not give a complete picture of the financial health of the institutions and did not effectively support financial planning and decision making. Hence National Municipal Accounts Manual (NMAM) suggested for double entry system of accrual based accounting. Tamil Nadu was the pioneer in implementing this

system. Kerala along with Andhra Pradesh, West Bengal, Maharashtra, Gujarat, Karnataka, Madhyapradesh, Orissa and Rajastan are following them.

In the modern financial and business world, good governance is not an optional extra. Good governance is fundamental to raising capital, satisfying investors and running successful business. It encourages the levels of transparency, accountability and social responsibility in the concerned establishment. Transparent accounting, financial reporting, meaningful participation, shared decision-making and public information have become an integral theme of *governance.* The introduction of acceptable accounting practices and disclosure norms made the government establishments, including Local Self Governments (LSG), to disclose how the government is faring in its job. This routine affair is regarded as the foundation for the integrity and maturity of the government than being a technical practice and it indeed calls for robust fiscal health on part of the municipal governments.

The necessities of providing basic urban services have made municipal accounting reforms to be philosophically relevant and a necessity in actual practice. Municipal accounting systems shall be able to reflect the financial transactions and the 'financial performance' of the municipal governments. It provides opportunity to depict its financial position, resource utilisation, ability to achieve its developmental goals and programme targets as well as its foresight in dealing with the developmental and financial challenges of governing the city.

The concept of municipal accounting reforms in India is nearly two decades old. The first phase (1981–'91) was made on a trial basis with the introduction of double entry accrual based accounting system, at the instance of the World Bank, in metro cities of Mumbai and Chennai. In Mumbai the scope of reform was limited to the water supply and sewerage system whereas in Chennai the accounting reforms were made on all its accounting operations. During the second phase (1990 –'95), the accrual based accounting was introduced in seven cities of Gujarat as a part of World Bank financial assistance. The third phase with a wave of accounting reforms came across the country since 1998.

State-wide municipal accounting reforms programme in Tamil Nadu; introduction of improved accounting systems in Gujarat, Rajasthan, Karnataka and Uttar Pradesh; accounting system enhancement project in Bangalore, Indore, Hyderabad and Ludhiana; the technical assistance to introduce state-wide municipal accounting reforms in Maharashtra; and further municipal accounting reforms in Uttaranchal, Haryana, Andhra-Pradesh and Gujarat came into operation during the third phase.

When compared to the previous phases, the third phase had a broader institutional development in municipal accounting reform. Framing a technical guide for the accounting and financial reporting of urban local bodies (made by the Institute of Chartered Accountants of India in the year 2000); to get the accounts of urban local bodies audited by that Comptroller & Auditor General of India (recommendation of the Finance Commission); expediting steps to convert the accounting of urban local bodies from cash to accrual basis

(recommendation of Supreme Court) are some of the developments in this phase.

The Task force on municipal accounting reforms, submitted the report to Government of India in December 2002, sufficed by model formats for accounting, budgeting and cost estimation. The proposals recommended the adoption of accrual based accounting; better budgeting practices, cost sheet and management information system.

On realising the importance, the Government of Kerala has decided to introduce measures to promote good urban governance and to encourage decentralisation and improving transparency in functioning of the ULB of the State. Improvements in the accounting and budgeting systems, improved record keeping and maintenance and capacity building among the personnel are some of the key measures adopted to enhance governance and transparency among the ULB in the State.

Since the local bodies were following diverse accounting policies and practices in preparation of their financial statements, state level and national level comparison and synchronization of fund related matters were rather difficult. To add more recognition and acceptability to the activities of the local self governments, the measurement, presentation and disclosure of financial reports shall be of high quality with specified standards. This made to think about a single set high quality financial reporting standards for local bodies.

As a part of improving transparency in operations, encouraging decentralization and promoting good urban governance, government of Kerala identified improvements in accounting and budgeting systems and improvement in record

keeping and maintenance and capacity building among the personnel as key measures.

The assignments in the area of ‘Capacity Building for Municipal Service Delivery in Kerala’ and the ‘Kerala Sustainable Urban Development Project’ (KSUDP) brought out the design of accounting and budgeting policies and procedures to be adopted by the ULB in the state. Based on these recommendations the accounting and budgeting systems of the ULB which is currently maintained on Cash Basis is transformed into accrual based double entry system of accounting. Thus the Accounting Policies and Procedures as described by National Municipal Accounts Manual (NMAM) are suitably modified to suit the requirements of Kerala. The five Municipal Corporations of the State namely, Thiruvananthapuram, Kochi, Kollam, Thrissur and Kozhikode and two Municipalities namely, Alappuzha and Thalassery is the pilot ULBs which came under the purview of this.

This is followed by the implementation of the accounting software in compliance with the Kerala Municipality Accounts Manual (KMAM). The launching of the scheme in Kozhikode Corporation and Kannur municipality came into effect from April 2009. The Accounting and Plan Monitoring System at all LSG institutions in the state has followed “Saankhya” and “Sulekha” software from April 2011 onwards. Moreover the Institute of Chartered Accountants of India has issued Accounting Standards for Local Bodies (ASLB) and all ULBs in Kerala shall be required to realign their Accounting Policies and Procedures to conform to these standards.

SIGNIFICANCE OF THE STUDY

In the nation's journey towards becoming economic power, local bodies will have to play an important part in enabling infrastructure availability to the citizens. The Jawaharlal Nehru Urban Renewal Mission (JNNURM) has made available funds to the extent of Rs. 50,000 crore for supporting urban reforms and after adding the contribution of states and municipalities the funding would amount to about Rs. 1,26,000 crore over a period of seven years. While the physical planning and development measures will address the issue of spending this amount judiciously, an appropriate accounting system for recording the transactions, including the establishment of a proper system for asset and liabilities accounting and revenue recognition are necessary. Accounting reforms and change to an accrual accounting system is a vital ingredient in this process. The accounting reform is intended to provide financial information to various users such as, citizens, elected representatives, administrators, investors, creditors, executives, legislatures, State Audit Departments, and State Urban Development and Panchayati Raj Departments in a timely and organised manner. The Committee on Accounting Standards for Local bodies has recognised the need for creating awareness amongst various stakeholders about the benefits of the accounting reform process in local bodies. Hence, an effort is made to for analyse the present situation, tracing the stage of implementation of reforms and identifying the hindrances, if any, in the implementation of plans and policies.

OBJECTIVES OF THE STUDY

1. Make a comparison between the cash based and accrual based accounting systems followed by various Local Self Governments in Kerala.
2. Make an evaluation about the methodology followed by ULBs of Bangalore, Bhubaneswar and Surat in implementing the accrual based accounting.
3. To enquire about the suitability and feasibility of software packages for the financial reporting of local bodies.
4. To study the problems faced, if any, during the process of implementing accrual based accounting systems in Local Self Governments in Kerala.
5. To identify and suggest areas which needs revision or updating.

METHODOLOGY

The study is based on primary and secondary data and is both descriptive and analytical in nature. Primary data is collected the officials of LSGs and Accounts Officers of KILA (Kerala Institute of Local Administration). The investigator has attended a number of courses on accounting and budgeting conducted by KILA for local self government accounts officers and elected representatives in the state. Personal interview with the team leaders of accrual accounting implementation team has given valuable insights. Discussions and telephonic interviews with the concerned Chartered Accountants gave a

lot of insight about the problems faced during accrual accounting implementation Questionnaires were used for gathering the required information from various Corporations, Municipalities and Grama Panchayats.

Secondary data was mainly collected from training manuals issued by KILA on Accrual based double entry system of Accounting in ULBs and A.F. Ferguson & Co. (AFF) report on implementation of accrual system. KILA authorities were benevolent enough to provide a glance at all documents regarding the implementation of accrual system and updated with all recent developments. The Accounting Standards for Local Bodies (ASLB) issued by Institute of Chartered Accountants of India (ICAI) has provided a strong base for a deeper evaluation.

The detailed information provided by KILA about the stage of implementation of accrual accounting was very useful for the study. For gathering the relevant aspects from the respondents of Grama Panchayat ,simple random sampling is used. The information gathered from various respondents, published and unpublished documents made available from various sources were synthesized for data analysis and interpretation. Simple descriptive statistical analysis is made wherever necessary. The coverage of the study is limited to the state of Kerala and the scope is limited to Local bodies in Kerala, though successful case studies of other urban local bodies are enumerated for a strong theoretical background and deeper awareness about the subject matter of study. The period of study is limited to a five years commencing from 2006-‘07 to 2010-‘11.

METHOD OF ANALYSIS

The primary data is appropriately tabulated, analyzed and objectively interpreted with the help of simple statistical tools. Figures from audited accounting information are used for interpretation of secondary data. Charts, graphs and diagrams are also used for data interpretation.

LIMITATIONS OF THE STUDY.

The personal contacts with officials of KILA, rapport with the team leaders of accrual accounting implementation and the involvement and association with the professional accounting teams provided a better access to many offices of LSGs, scrutiny and analysis of a considerable portion of accounts of LSGs are not available since they are kept confidential and access is denied to common man.

Though a census approach is made on the Corporations and Municipalities in Kerala, simple random sampling is made towards the GramaPanchayats.

Confidential nature followed in preparing government accounts and the shorter duration of study period made it not possible to have an indepth experience survey and the reflections of this handicap is not over ruled in the interpretations.

Despite the limitations mentioned above, earnest efforts have been made to make this study more precise, useful and meaningful.

SCHEME OF REPORT

The thesis is divided into five chapters. First chapter deals with preface, introduction, methodology and literature review. The second chapter contains the accounting system followed by local bodies in Kerala before the introduction of accrual accounting and the relative advantages and disadvantages of cash accounting and accrual accounting. The third chapter deals with the accounting policies and practices followed by various corporations, municipalities and Panchayats. The fourth chapter deals with problems faced during the implementation. The fifth chapter deals with Findings, conclusions & recommendations.

MAJOR FINDINGS OF THE STUDY.

1. State has modified its current appropriate laws and regulations to be in compliance with the double-entry accrual principles
2. Significant advancement has been made for transition to Accrual Based Double Entry System of Accounting.
3. Kerala has adopted its own accounting Manual in the name Kerala Municipal Accounts Manual (KMAM).
4. The Staff members in the Accounts Department of various LSGs and members of the Finance Standing Committee of various elected bodies are sufficiently trained in the new system of accounting.
5. During the initial period of transition, the core team members were fully trained to handle the new system including the operation of the software.

6. Though the officials of Accounts Department were also trained in the new system , shortage of sufficiently qualified personnel were highly observed during the implementation process.
7. The framing of Kerala Municipal Accounts Manual, implementing of accounting software packages gave adequate momentum to the system.
8. Notification and guidelines for the valuation of fixed assets, receivables, and cash and bank balances made the reliability factor to grow more.
9. The grants received by the ULB have been accounted based on the nature of transactions and the appropriation control register maintained by the ULB.